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TESTIMONY
OF
SANDI HENNEQUIN

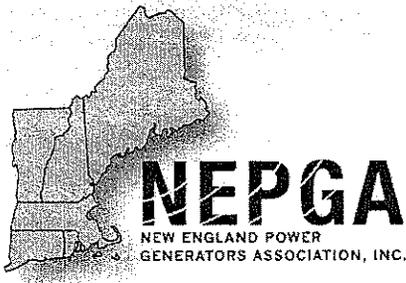
ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION, INC. (NEPGA)

2011 – Senate Bill 1079

CONNECTICUT GENERAL ASSEMBLY
COMMITTEE ON ENERGY AND TECHNOLOGY

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Good afternoon and thank you for the opportunity to testify. My name is Sandi Hennequin and I am the Vice President of the New England Power Generators Association, Inc. ("NEPGA"). NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 27,000 megawatts (MW) – or nearly 85 percent – of generating capacity throughout New England, and over 6,800 MW of generation in Connecticut, representing the vast majority of the electric generating capacity in the state. Overall, NEPGA's Connecticut companies pay approximately \$35 million annually in state and local taxes. Our member companies provide 1,800 well-paying and skilled Connecticut manufacturing jobs, while contributing nearly one million dollars to charitable endeavors throughout the state. NEPGA's mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA's Position

NEPGA opposes SB 1079, specifically Section 2, for the following reasons:

- The bill abandons competitive sourcing of new renewable resources in favor of sole-sourcing by the utilities, which can lead to higher costs than necessary.
- The bill ignores substantial evidence that private investors are vigorously developing a wide range of new renewable resources in the region.
- The bill lacks a clear rationale for even a partial return to the old monopoly utility generation ownership model.

This bill is not in the interest of Connecticut's electricity consumers and represents a marked departure from past legislation introduced by the Committee. Over a decade ago, the Legislature pursued electric restructuring and utilities were required to exit the

generation business. Energy acts passed by the Legislature in 2005 and 2007 refined the electric restructuring statutes and established a precedent that if the state determined a need for new generation resources, it would not arbitrarily look to the utilities to build the resources, rather it would establish a fair and transparent competitive solicitation process whereby proposals from all interested companies would be considered by the DPUC. In that way, the DPUC would be able to pick the projects that best suited the needs of the electricity consumers in Connecticut, at the lowest available cost. This bill is a marked departure from that clear and logical policy direction.

To further detail NEPGA's opposition to this bill, this testimony reviews the results of the 2005 and 2007 legislation, and then details the reasons NEPGA opposes this legislation.

Results of 2005 and 2007 Legislation

In July 2005, the Connecticut General Assembly passed Public Act 05-01, the Energy Independence Act, which contained a number of incentives for reducing congestion costs, and for expanding the development of customer-owned generation and increasing energy efficiency. In particular, the legislation provided for a RFP process for new generation and demand reduction resources. Later, in July 2007, the General Assembly passed Public Act 07-242 which included a package of provisions to encourage energy efficiency and conservation, incentives for renewable energy, and incentives for other generation resources. The model for generation procurement in both pieces of legislation was a competitive RFP process administered by the DPUC and open to all market participants, not solely awarding contracts to the electric distribution companies. This competitive RFP structure contributed to the robust generation development in Connecticut in which there is a substantial amount of generation under development. In response to the 2006 Connecticut DPUC RFP, over 80 projects totaling 8,000 MW were submitted. The 2007 Connecticut DPUC peaking RFP led to the submittal of 11 proposals totaling 1,800 MW. Both generation procurements were done through an open, fair and transparent competitive bidding process. This approach sought to expand the pursuit of generation development to a

wide range of companies, allowing competitive market principles to deliver the desired generation, at the lowest costs to ratepayers.

This Bill Abandons Competitive Sourcing of New Generation

In a sharp departure from the 2005 and 2007 legislation, Section 2 of SB 1079 proposes to simply allow the state's utilities to build new renewable resources, with absolutely no cap on the amount or any competitive solicitation of alternatives. This is bad public policy on several levels. No new investment of the magnitude contemplated here should be undertaken without testing the market to ensure that the best price is being obtained. Further, in stark contrast to traditional utility cost-of-service rate-making, the competitive RFP process can be structured to provide a largely fixed price for the new project, with substantial schedule and performance incentives on the winning bidder. The legislature should continue to insist that new infrastructure investments for the state be conducted through open, fair and transparent competitive bidding processes.

Private Investors are Vigorously Pursuing Development of New Renewable Resources Throughout the New England Region.

One possible rationale for SB 1079's proposal to allow the utilities to build new renewable resources is a concern that there is not a ready pool of such resources available to be built. Nothing could be further from the truth. In the recent Request for Information (RFI) administered by the New England States Committee on Electricity (NESCOE), NESCOE reports that project developers submitted information describing fifty new renewable resource projects, with nameplate capacity of over 4,700 MW, under development in the region that would be eligible for the RPS programs of all five states, plus Vermont's renewable energy goals. Given this vibrant queue of potential projects being developed by private investors, there is no need for the utilities to embark on their own projects, especially without an open, fair and transparent competitive process to ensure that the new resources are being obtained at the lowest available cost to consumers.

No Clear Rationale for a Return to the Old Monopoly Generation Ownership Model

SB 1079 contemplates a partial return to the old monopoly generation ownership model in Connecticut. This bill would allow electric distribution companies to construct, own and operate renewable energy generation facilities, and provide for recovery of such construction, ownership and operational costs, including a return on investment through a nonbypassable charge.

This departure from current law and a return to a model in which the utilities own the generation will unnecessarily transfer the financial risks associated with owning and operating generation from private investors to captive ratepayers. Prior to electric restructuring, ratepayers bore all of the costs of utility ownership of generation, including risks of cost over-runs, schedule delays, poor generator performance and stranded costs. In the restructured market paradigm, an electric supplier's ability to survive is predicated on innovation, risk management and a vibrant focus on unit availability and efficiency. The old monopoly ownership model led to serious cost overruns and stranded costs by utilities which ratepayers just recently paid off. Under this old model, utilities shifted all financial risk of ownership of generation onto their captive ratepayers. A return to this model is a marked departure from the status quo and ignores the very real opportunities available to the state through privately-funded renewable resources. The state should instead seek out mechanisms to ensure that those private investors can successfully complete their projects and deliver their clean renewable energy to Connecticut consumers, through the competitive wholesale markets.

Existing Competitive Markets Offer a Better Policy Option

If policy-makers determine a need for more renewable resource development in Connecticut, a better policy approach is to use the existing competitive markets. In both 2006 and 2007, the state determined a need for new generation resources and successfully ran an RFP process. This allowed all interested companies to participate, and ensured that the desired generation would be delivered at the lowest cost. If consumers are going to be asked to finance any new renewable generation

development, they should have the assurance of an open, fair and transparent competitive bidding process, delivering a product at the lowest cost.

Conclusion

NEPGA strongly encourages legislators to continue the successful competitive RFP procurement model utilized by the state in the past and to maintain the level competitive playing field for the benefit of the ratepayers. As currently drafted, SB 1079 would allow the two electric distribution companies to develop new resources, an unfortunate return to a monopoly ownership model that limits cost-effective choices for ratepayers. NEPGA strongly suggests that a better approach would be the continued use of competitive markets with a fair and transparent competitive solicitation whereby all interested market participants can compete through an open RFP process and on the basis of cost and other identified desirable attributes. NEPGA believes this would better advance the public policy goals driving this legislation, and would utilize market forces to get the most cost-effective, efficient outcome to better serve ratepayer's interests.